

MANUFACTURING IN AMERICA

INTRODUCTION

Manufacturing is a cornerstone of the American economy. The United States is the world's largest producer of manufactured goods and leads the world in innovation. Simply put, manufacturing matters – to jobs, rising productivity and higher standards of living. Manufacturers improve our quality of life.

President Bush's concern for the men and women who work in manufacturing and the critical contribution they make to the U.S. economy are the driving forces behind this report. Administration policies, from making the tax relief enacted over the past three years permanent, to opening new markets for U.S. goods and services, to reducing the cost of health care for employers and their employees, are reflective of this concern.

As U.S. manufacturers engage in global competition with unique strengths, they face unprecedented challenges. The most recent recession – a downturn that first began to be felt in 2000 – hit U.S. manufacturers and their workers hardest. Today, as the overall U.S. economy expands strongly, much of the manufacturing sector continues to operate well below its previous peak.

To help identify the challenges facing the American manufacturing sector, the U.S. Department of Commerce held over 20 public roundtables over the past year. The discussions included representatives from small, medium, and large companies from a broad range of industries, including auto parts, aerospace, biotechnology, and semiconductors. The Department also studied official data that helped gauge the health of the manufacturing sector.

This report provides an overview of the domestic and international economic environment facing American manufacturing, highlights the expressed views of manufacturers regarding the challenges they face, and advances policy recommendations to help ensure that government is creating the conditions necessary for U.S. manufacturers to maximize their competitiveness. The recommendations represent an important step toward crafting the comprehensive strategy Secretary of Commerce Donald Evans called for in March 2003 to help address the challenges facing America's manufacturers.

CHALLENGES EXPRESSED BY U.S. MANUFACTURERS

The Department of Commerce roundtable discussions included every major industry sector. Through this dialogue, Administration officials heard the challenges facing U.S. manufacturers. The feedback from manufacturers fell within the following six categories:

Focusing On Manufacturing and Its Competitiveness

To many manufacturers across the country, it appeared that the public and the government had lost sight of a simple truth: you can't have good jobs if you don't have strong businesses. Manufacturers sought governments' continued commitment to take the necessary steps to foster an environment where manufacturers can compete. In particular, manufacturers asked for there to be a specific advocate for manufacturing in the executive branch and a mechanism to coordinate efforts at all levels of government in support of manufacturing.

Generating Stronger Economic Growth Domestically and Internationally

The participants indicated that the single most important economic policy objective from their perspective was encouraging economic growth at home and abroad. There was a broad understanding that a sharp drop in business investment led the recent recession. Roundtable members sought to encourage stronger domestic and international demand for American-made products by building on the tax and trade policy achievements of the past three years.

Reducing Costs That Erode Competitiveness

Manufacturers joined this administration in calling for policies to help control the costs of doing business. They have worked to reduce their costs and improve their productivity, but have often found their efforts eroded by costs they could not control – costs that could be addressed by government, including rising healthcare costs, excessive litigation, volatile energy prices and burdensome regulations. Industry sought to work with government to reduce those costs and, in the process, create an economic environment that fosters their ability to compete effectively against foreign companies.

Reinforcing America's Technological Leadership

Companies understood that innovation and technology are the keys to competitiveness. They recognized the need for continuing investment in research and development of new products to remain ahead of the competition. What the manufacturers sought was a continued commitment to research and development and to ensure that the government reinforces, rather than creates obstacles to, the process of bringing innovations to the marketplace. They emphasized the importance of adequate and effective intellectual property protection, and the corrosive effect of the failure of some of our trading partners to enforce these rights. As they noted, America's competitive edge flows directly from innovation and rising productivity. Intellectual property protection is essential in fostering the virtuous cycle of innovation that raises our productivity and meets the wants of consumers around the world.

Ensuring A Highly Skilled and Educated Workforce

Manufacturers expressed serious concerns about whether the U.S. was adequately preparing the next generation for the demands of an increasingly high-tech workplace. They made clear that advanced labor skills are one of the decisive factors determining our nation's ability to compete in the global economy. Participants strongly believed that the U.S. risked undermining our innovation infrastructure if it failed to produce more scientists, engineers and high-skilled workers.

Insisting On A Level International Playing Field

U.S. manufacturers expressed strong support for an aggressive trade policy intent on opening markets. Manufacturers were not looking for protection or subsidies; they were looking for a fair and level international playing field – an equal opportunity to compete for business at home and abroad. They called for the elimination of subsidies, non-tariff barriers, and other market-distorting practices that provide their foreign competitors an unfair advantage. In addition, manufacturers attending the roundtables raised concerns about the issue of exchange rates, in particular China's peg of its currency to the dollar. Many expressed concern that exchange rates with a number of our trading partners are set by government intervention rather than market forces.

RECOMMENDATIONS

Below is a summary of the recommendations contained in the report. To act on these recommendations, the report calls on Congress, federal agencies, state and local governments, and the Department of Commerce to act on the following specific items important to America's manufacturers:

Creating the Conditions for Economic Growth and Manufacturing Investment

- *Make Recent Tax Cuts Permanent.* Enable manufacturers to attract capital and invest for the future with confidence.
- *Reduce the Cost of Tax Complexity and Compliance.* Undertake a study of tax simplification, focusing on provisions that are particularly complex for manufacturers, including depreciation and the corporate alternative minimum tax.

- *Make Permanent the Research and Experimentation Tax Credit.* Increase the certainty associated with the tax treatment of research expenditures.
- *Expand Access to Lower Cost Capital.* Increase incentives for saving, making capital more available to manufacturing and other sectors in the economy.

Lowering the Cost of Manufacturing in the United States

- *Conduct a Regulatory Review.* Inventory existing regulations, evaluate and implement reforms, and review impact of new rules.
- *Lower Health Care Costs.* Enact Association Health Plans, promote Health Savings Accounts, pass medical liability reform, and accelerate access to new and generic drugs.
- *Modernize the U.S. Legal System.* Reduce the risk and cost of manufacturing by enacting asbestos, class action and medical liability reform.
- *Enact Energy Legislation.* Increase the reliability and affordability of electricity, facilitate adequate and economical supplies of natural gas, and encourage further research and development in new energy technology.

Investing in Innovation

- *Strengthen the U.S. Patent System.* Enhance intellectual property protection and increase the availability of new products and services.
- *Ensure an Appropriate Focus on Innovation and Productivity Enhancing Technologies.* Conduct a review of federal research and development programs important to manufacturing to ensure that there is an appropriate focus on innovation and productivity-enhancing technologies.
- *Support a Newly Coordinated Manufacturing Extension Partnership.* Leverage the capabilities of other programs to foster cooperation, knowledge transfer, and greater efficiency.
- *Promote Manufacturing Technology Transfer.* Ensure that the benefits of research and development are diffused broadly throughout the manufacturing sector, particularly to small and medium enterprises (SMEs).
- *Explore Unique Capabilities of National Labs and Universities.* Establish cooperative research programs for the benefit of SMEs.

Strengthening Education, Retraining, and Economic Diversification

- *Establish a High School and Technical Education Partnership Initiative.* Ensure that students are being taught the necessary skills to make successful transitions from high school to college and from college to the workforce.

- *Analyze Specialized Training Needed to Succeed in the Manufacturing Environment of the Future.* Examine whether the existing system of vocational-technical education is sufficient to meet the needs of the manufacturing sector and propose recommendations for improvement.
- *Establish Personal Re-employment Accounts.* Help ensure that workers who lose their jobs can rapidly and successfully reenter the workforce.
- *Coordinate Economic Adjustment for Manufacturing Communities.* Coordinate the efforts of federal agencies in addressing structural economic challenges faced by manufacturing-dependent communities in transition.
- *Transform Workforce Development Programs.* Enable workers to develop skills necessary for employment in emerging and growing industries.

Promoting Open Markets and a Level Playing Field

- *Encourage Economic Growth, and Open Trade and Capital Markets.* Encourage the adoption of growth-oriented economic policies, the integration financial markets, and the phase-out of government subsidies and other market distorting practices.
- *Negotiate Trade Agreements that Benefit U.S. Manufacturers.* Pursue the elimination of foreign tariff and non-tariff barriers to exports and negotiate the elimination of trade-distorting subsidies.
- *Enforce Trade Agreements and Combat Unfair Trade Practices.* Strengthen intellectual property enforcement and establish an Office of Investigations and Compliance and an Unfair Trade Practices Task Force.
- *Reinforce Efforts to Promote the Sale of American Manufactures in Global Markets.* Implement a global supply chain initiative, promote global use of U.S. technical standards, review export control laws, and consolidate export promotion functions.

Enhancing Government's Focus on Manufacturing Competitiveness

- *Establish a "President's Manufacturing Council."* Ensure a voice for manufacturers of all sizes in the ongoing implementation of the President's Manufacturing Initiative.
- *Create an Assistant Secretary of Commerce for Manufacturing and Services.* Establish a position to formulate, advocate, coordinate and implement policies that impact U.S. manufacturing competitiveness.
- *Form a New Office of Industry Analysis.* Enhance analytical capabilities to assess the cost competitiveness of U.S. industry and the impact of proposed rules and regulations.
- *Foster Intergovernmental Coordination.* Promote cooperation among federal, state, and local governments to ensure that sound and innovative ideas on regulatory reform and economic development are widely available.